

WATER/SNR/TAC/LEP:jrb**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA****WATER DIVISION****RESOLUTION NO. W-4420****September 4, 2003****R E S O L U T I O N**

**(RES. W-4420), BENBOW WATER COMPANY (BWC). ORDER
AUTHORIZING A GENERAL RATE INCREASE PRODUCING
ADDITIONAL ANNUAL REVENUE OF \$26,633 OR 21.2%, IN
2003.**

SUMMARY

This resolution grants a general rate increase in gross annual revenues of \$26,633 or 21.2%, based on Test Year 2003. This increase will provide a 12.9% rate of return on a rate base of \$346,087.

BACKGROUND

BWC has requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase its water rates by 56.6% or \$71,093, for Test Year 2003. The purpose of the rate increase is to recover increased operating expenses and to provide an adequate rate of return on an increased rate base. BWC's request shows gross revenues of \$125,550 at present rates increasing by 56.6% (or \$71,093) to \$196,643 at proposed rates. BWC is requesting a rate of return on rate base of 13.3%.

The current rates were established by the last general rate increase, granted on June 3, 1999 by Resolution (Res.) W-4151, which authorized an increase of \$35,450 or 37.35% for test year 1999. BWC also has a State Drinking Water Bond Act (SDWBA) loan of \$100,000 authorized in 1981 that is being paid off by the customers with a yearly surcharge ranging from \$60 to \$1,500 according to meter size. The current balance on the loan is approximately \$35,000.

DISCUSSION

BWC is a sole proprietorship owned by Mrs. Vere Benbow. BWC's service area is located approximately three miles south of Garberville in Humboldt County. The service territory straddles the Eel River at about 400 feet above sea level. The system is sectioned into three zones: Zone 1 is located at the lowest elevation and has a new 100,000-gallon tank which went on line as the primary Zone 1 storage on 6/12/03; Zone 2 is located at an elevation of approximately 900 feet and has a 6,000-gallon redwood storage tank that serves approximately three customers; Zone 3 is located at the highest elevation of about 1,200 feet and has two 6,000-gallon polyethylene storage tanks which were installed in 2001.

BWC has approximately 25,546 linear feet of pipe, comprised of a combination of cast iron, asbestos cement, plastic and polyvinyl. BWC obtains water from an infiltration gallery well with perforated pipes buried in a stream bed of the East Branch of the South Fork of the Eel River. On June 29, 1989, the Environmental Protection Agency (EPA) promulgated federal regulations that required filtration and disinfection treatment of surface water or groundwater under the influence of surface water. In order to comply with this regulation, BWC installed the required filtration system, which was approved by the Commission in September 15, 1994 (Res. W-3879).

There is a 40-horsepower (hp) submersible pump that takes water from the gallery and sends it to the 100,000-gallon bolted steel storage tank located in Zone 1. An additional 10hp submersible pump serves as a back up. Approximately 300 yards downstream, BWC maintains a separate back-up facility, which could potentially provide an increase flow in the event of an emergency. There is also a submersible booster pump in the main storage tank that pumps water up to 230 feet to feed a 6,000-gallon redwood storage tank in Zone 2. Zone 3 has two 6,000-gallons polyethylene storage tanks that were added to the system in 2001.

The system consists of 95 connections: 84 are small five-eighths or three quarter inch services, 11 are commercial, and one is a fire protection service. Most customers in the service area are permanent residents who own their own homes. Roughly 80% of the residents are employed and 20% are retired. Income levels in the area are moderate. The growth in the past has been minimal and due to erosion and associated landslides, a modification of the service area to reflect unserviceable areas was approved on June 3, 1999 through Res. W-4151.

Ordering Paragraph 3 of Res. W-4151 stated: "After connection of the three pending and the three potential customers in Zone 2 and Zone 3, a moratorium shall be placed on Zones 2 and 3."

The BWC staff consists of Mr. Winston Benbow, the general manager, who visits the facilities about once a month, and a Grade 4 treatment plant operator, who oversees the daily operation and maintenance of the water treatment plant and distribution facilities, supervises contract personnel, performs water quality monitoring, compliance, and reporting.

Appendix A shows BWC's and the Branch's estimates of the summary of earnings at present, requested, and recommended rates. Appendix A also shows BWC's and the Branch's estimates in operating revenues, expenses, and rate base.

Staff analyzed each operating expense item and rate base item listed in Appendix A and disagreed with several of BWC's estimates. BWC was informed of the Branch's differing views of revenues, expenses and rate base and agrees with the Branch's findings.

In D.92-03-093, effective April 30, 1992, the CPUC adopted the operating ratio method of ratemaking as an alternative to the rate of return method for Class C and Class D utilities. Thus, two methods are available for Staff to utilize in the ratemaking process: Return on Rate Base (net investment) and Operating Ratio. Staff first calculates the revenue requirement utilizing the rate of return method and then calculates the revenue requirement utilizing the operating ratio method. Policy dictates that Staff will recommend the method that produces the higher revenues.

In the operating ratio method, the utility's revenue requirement is defined as the sum of its operating and maintenance expenses, depreciation expenses, income and other taxes, and an operating margin. A 20% rate of margin has historically been used to determine the margin over and above operating, maintenance, and depreciation expenses.

Comparison of the revenue requirement indicates that the return on rate base method produces a higher revenue requirement than the operating ratio method. In keeping with policy, Staff recommends the return on rate base method for determining the revenue requirement.

The current workbook utilized for Class D utilities (now a modified 3-page document) only allows the utility to utilize the last adopted rate base figure and to add and retire plant additions since the last rate case. There are no adjustments allowed for accumulated depreciation on prior plant in service, working cash, or materials and supplies.

BWC has made many system improvements since the last general rate case: constructed a small office that houses the utility's control panels; installed a new submersible pumps and controls in Zones 2 & 3; installed two new 6,000-gallon polyethylene tanks in Zone 3; and installed a new 100,000-gallon bolted steel tank (at a cost of \$75,000). Branch has reviewed the additions to the system since the last general rate case and found them to be reasonable.

BWC estimates \$431,962 for Rate Base for Test Year 2003, while Branch estimates \$346,087. The difference between BWC's and Branch's amounts is due to the following: BWC did not average Plant in Service, Accumulated Depreciation and Contributions; BWC did not take depreciation for Plant in Service since the last general rate case; BWC did not deduct contributions since the last general rate case; BWC used a full year's depreciation for the new tank (which was installed in June of 2003) and other improvements made to the system during 2003, while Branch used a half-year depreciation for the 2003 additions to the system.

There are no outstanding Commission orders requiring system improvements. The utility has been filing annual reports as required. According to the Department of Health Services, the utility currently meets all applicable water quality standards. BWC's tariff sheets have been reviewed by Staff and the following sheets need to be updated: Preliminary Statement, Rule 10-Disputed Bills, and Form 3-Bill for Service.

BWC is a Class D water company. Decision 92-03-093 allows Class D utilities to recover up to 100% of fixed costs in their readiness to serve charge. The rate structure that the Branch recommends recovers 98% of BWC's fixed costs in the readiness to serve charge. BWC's current rate structure consists of three schedules: Schedule No. 1, Metered Service, Schedule No.4, Private Fire Protection Service, and Schedule No. 5PR, Private Fire Hydrant Service. Most of the 3/4-inch customers are residential customers who have 3/4-inch meters rather than 5/8-inch meters because of low water pressure. BWC requested to have the same price for the 5/8-inch meter and the 3/4-inch meter size. Branch agrees that customers who are forced to have 3/4-inch meters rather than 5/8-

inch meters should see some relief. Branch does not recommend doing so at this time because making the two rates equal would have the effect of a very large increase for the 5/8-inch meters.

The new rate schedules can be found in Appendix B. A bill comparison can be found in Appendix D. At the Branch's recommended rates shown in Appendix B, the bill for a typical residential customer with a 3/4 inch meter will increase from \$74.24 to \$84.73 per month. A comparison of customer bills at present and recommended rates is shown in Appendix D. The adopted quantities and tax calculations are shown in Appendix C.

NOTICE AND PUBLIC MEETING

A notice of the proposed rate was mailed to each customer on April 5, 2003. The Branch received two letters protesting the amount of the rate increase. Between the years of 2000 and 2002, the Consumer Affairs Branch received one complaint (in 2001). The Water Division has not received any complaints during that time period.

A public meeting was held on Wednesday, April 30, 2003 at 6pm at the Masonic Hall located at 783 Locust St, Garberville, CA. A copy of the meeting memorandum is attached to this report as Appendix E.

FINDINGS

1. After consultation, BWC agreed with Staff's recommended Summary of Earnings (Appendix A).
2. The Staff's recommended Summary of Earnings (Appendix A) is reasonable and should be adopted.
3. The rates recommended by the Staff (Appendix B) are reasonable and should be adopted.
4. The quantities (Appendix C) used to develop the Staff's recommendations are reasonable and should be adopted.
5. The rate increase proposed by the Staff is justified. The resulting rates are just and reasonable.
6. BWC's system meets G.O. 103 pressure requirements.

7. BWC's following tariff sheets need to be updated: Preliminary Statement, Rule 10-Disputed Bills, and Form No. 3-Bill for Service.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Benbow Water Company to file an advice letter incorporating the summary of earnings and the revised rate schedules attached to this resolution as Appendices A and B, and concurrently cancel its presently effective rate Schedule No. 1, Metered Service, Schedule No. 4, Private Fire Protection Service, and Schedule No. 5PR, Private Fire Protection Service. The filing shall comply with General Order 96-A. The effective date of the revised schedules shall be five days after the date of filing.
2. Benbow Water Company shall increase its annual revenues by \$26,633 or 21.2%, based on reasonable rates for 2003.
3. Benbow Water Company shall update the following tariff sheets: Preliminary Statement, Rule 10-Disputed Bills, and Form No. 3-Bill for Service.
4. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on September 4, 2003; the following Commissioners voting favorably thereon:

WILLIAM AHERN
Executive Director

Appendix A
Benbow Water Company
Summary of Earnings -- Test Year 2003

| | Estimated At Present Rates | | Estimated At Proposed Rates | | Staff Recommended |
|---------------------------------|-------------------------------|----------------|--------------------------------|----------------|----------------------|
| | Staff | Utility | Staff | Utility | Rates |
| Fire protection revenue | 1,250 | 1,250 | 1,250 | 1,250 | 1,250 |
| Metered water revenue | 123,914 | 124,000 | 194,529 | 194,921 | 150,376 |
| Other revenue | 300 | 300 | 472 | 472 | 472 |
| Total Revenue | 125,464 | 125,550 | 196,252 | 196,643 | 152,098 |
| Oper. & Maint. Exp: | | | | | |
| Power | 11,105 | 11,105 | 12,000 | 12,000 | 12,000 |
| Other volume related exp. | 401 | 401 | 772 | 1,200 | 772 |
| Employee labor | 7,200 | 7,200 | 9,600 | 14,490 | 9,600 |
| Materials | 3,361 | 3,361 | 2,529 | 3,500 | 2,529 |
| Contract work | 5,075 | 5,075 | 4,035 | 12,350 | 4,035 |
| Water testing | - | - | 1,200 | 1,200 | 1,200 |
| Transportation expenses | 3,098 | 3,098 | 4,142 | 6,100 | 4,142 |
| Other plant maintenance | 2,359 | 2,359 | 2,200 | 2,200 | 2,200 |
| Office salaries | - | - | - | 6,000 | - |
| Management salaries | 18,000 | 18,000 | 18,000 | 18,000 | 18,000 |
| Employee pens. & benefits | 540 | 540 | 400 | 400 | 400 |
| Uncollectibles expense | - | - | 200 | 200 | 200 |
| Office services & rentals | 564 | 564 | 1,370 | 2,700 | 1,370 |
| Office supplies and expenses | 6,926 | 6,926 | 6,750 | 6,750 | 6,750 |
| Professional services | 5,223 | 5,223 | 5,600 | 5,600 | 5,600 |
| Insurance | 4,576 | 4,576 | 4,500 | 4,500 | 4,500 |
| Regulatory comm. expense | - | - | - | 1,650 | - |
| General expenses | 4,895 | 4,895 | 1,000 | 4,500 | 1,000 |
| Total operating expenses | 73,323 | 73,323 | 74,298 | 103,340 | 74,298 |
| Depreciation | 11,500 | 12,500 | 11,500 | 12,500 | 11,500 |
| Taxes Other than income | 8,221 | 4,950 | 8,221 | 4,950 | 8,221 |
| State tax | 2,866 | 800 | 9,037 | 6,705 | 5,134 |
| Federal income tax | 4,433 | - | 19,936 | 11,548 | 8,236 |
| Total deductions | 100,343 | 91,573 | 122,992 | 139,043 | 107,389 |
| Net Revenue | 25,121 | 33,977 | 73,260 | 57,600 | 44,709 |
| Average plant | 495,455 | - | 495,455 | - | 495,455 |
| Average accum. dep. | 132,813 | - | 132,813 | - | 132,813 |
| Net plant | 362,641 | - | 362,641 | - | 362,641 |
| Rate Base | 346,087 | 431,962 | 346,087 | 431,962 | 346,087 |
| Rate of Return | 7.3% | 7.9% | 21.2% | 13.3% | 12.9% |

Appendix B
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Benbow Water Company

Schedule No. 1
METERED SERVICE

APPLICABILITY

Applicable to all metered water service furnished on a monthly basis.

TERRITORY

Benbow and vicinity, located approximately three miles south of Gerberville, Humboldt County.

RATES

Quantity Rate:

For all water, per 100 cu.ft.....\$ 0.89 (I)

Service Charge:

| | Per Meter <u>Per Month</u> | | SDWBA Yearly <u>Surcharge</u> |
|-------------------------------|-------------------------------|-----|-------------------------------------|
| For 5/8 x 3/4 inch meter..... | \$ 62.50 | (I) | \$ 60.00 |
| For 3/4 inch meter..... | 78.50 | | 90.00 |
| For 1 inch meter..... | 142.00 | | 150.00 |
| For 1-1/2 inch meter..... | 284.00 | | 300.00 |
| For 2 inch meter..... | 454.00 | | 480.00 |
| For 3 inch meter..... | 848.00 | | 900.00 |
| For 4 inch meter..... | 1,420.00 | (I) | 1,500.00 |

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the charge for water used computed at the quantity rates.

SPECIAL CONDITIONS

1. The Safe Drinking Water Bond Act (SDWBA) surcharge is in addition to the water bill. This surcharge must be identified on each bill. The surcharge is specifically for the repayment of the California SDWBA loan authorized by Decision 93798.
2. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

APPENDIX B
(Page 2 of 3)
Benbow Water Company

Schedule No. 4
PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to all metered water service furnished to privately-owned fire protection services.

TERRITORY

Benbow and vicinity, located approximately three miles south of Gerberville, Humboldt County.

RATES**Per Month**

For each inch of diameter of service connections... \$ 22.00 (I)

SPECIAL CONDITIONS

1. The fire protection service connection shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.
2. The minimum diameter for fire protection service shall be four inches, and the maximum diameter shall not be more than the diameter of the main to which the service is connected.
3. If a distribution main of adequate size to serve a private fire protection service in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.
4. Service hereunder is for private fire protection service to which no connections for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction, are installed according to specifications of the utility, and are maintained to the satisfaction of the utility. The utility may install the standard detector type meter approved by the Board of Fire Underwriters for protection against theft, leakage, or waste of water and the cost shall be paid by the applicant. Such payment shall not be subject to refund.
5. The utility undertakes to supply such water at such pressure as may be available at any time through the normal operation of its system.
6. All water bills are subject to the Public Utilities Commission reimbursement fee set forth in Schedule No. UF.

APPENDIX B**(Page 3 of 3)****Benbow Water Company****Schedule No. 5PR****PRIVATE FIRE PROTECTION SERVICE****APPLICABILITY**

Applicable to all water service furnished to hydrants owned by individuals other than municipalities, organized fire districts, and other political subdivisions of the State.

TERRITORY

Benbow and vicinity, located approximately three miles south of Garberville, Humboldt County.

RATES**Per Month**

For each inch of diameter of service connections... \$ 22.00 (I)

SPECIAL CONDITIONS

1. Water delivered for the purposes other than fire protection shall be charged for at the quantity rates in Schedule No. 1, Metered Service.
2. The cost of relocation of any hydrant shall be paid by the party requesting relocation.
3. Hydrants shall be connected to the utility's system upon receipt of a written request from an individual. The written request shall designate the specific location of each hydrant and, where appropriate, the ownership, type, and size.
4. The utility undertakes to supply only such water at such pressures as may be available at any time through the normal operation of its system.
5. All water bills are subject to the Public Utilities Commission Reimbursement Fee set forth in Schedule No. UF.

Appendix C
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Benbow Water Company
Recommended Quantities -- Test Year 2003

Offset Items

1. Purchased Power

Pacific Gas & Electric Company
Effective Date April 1, 2003
Schedule A-1 Small General Service
Quantity Charge:
KWh used – Total: 79,025
KWh used – Summer: 49,662
KWh used – Winter: 29,363
CUSTOMER CHARGE, per day
Single Phase Service, per meter \$0.26612
Polyphase Service, per meter \$0.39425
Total Cost \$12,000
Total kWh 79,025
Average Unit Cost \$/kWh \$0.1519

2. Payroll

Employee Labor \$ 9,600
Office Salaries 0
Management Salaries \$18,000

3. Payroll Taxes \$ 3,271

4. Property Taxes \$ 4,950

5. Service Connections

| Meter Size | |
|---------------|----|
| 5/8 x 3/4" | 31 |
| 3/4" | 53 |
| 1" | 5 |
| 1-1/2 | 2 |
| 2" | 3 |
| 6" | 0 |
| 8" | 1 |
| Total Metered | 95 |

**Appendix C
(Page 2 of 2)
Benbow Water Company**

Recommended Quantities -- Test Year 2003

| | | |
|----|------------------------------|------------|
| 1. | Operating Revenues | \$ 152,098 |
| 2. | Expenses | 74,298 |
| 3. | Depreciation | 11,500 |
| 4. | Payroll Taxes | 3,271 |
| 5. | Property Taxes | 4,950 |
| 6. | Taxable Income for State Tax | 58,079 |
| 7. | State Tax (8.84%) | 5,134 |
| 8. | Taxable Income for FIT | 54,914 |
| 9. | Federal Tax | 8,236 |

Federal Tax Rate: 15% for 1st \$50,000 of taxable income
25% for next \$25,000 of taxable income
34% for next \$25,000 of taxable income
39% for next \$235,000 of taxable income

State Tax Rate: 8.84%

Appendix D
Benbow Water Company

Comparison of Rates -- Test Year 2003

METERED SERVICE

Per Meter Per Year

| | Present <u>Rates</u> | Staff Recommended Rates <u>TY 03</u> | Percent Increase (Decrease) |
|--------------------------|-------------------------|---|-----------------------------------|
| For 5/8 X 3/4 inch meter | \$ 46.10 | \$ 62.50 | 35.6% |
| For 3/4 inch meter | \$ 69.20 | \$ 78.50 | 13.4% |
| For 1 inch meter | \$ 115.10 | \$ 153.00 | 23.3% |
| For 1-1/2 inch meter | \$ 231.00 | \$ 284.00 | 22.9% |
| For 2 inch meter | \$ 370.00 | \$ 454.00 | 22.7% |
| For 3 inch meter | \$ 702.00 | \$ 848.00 | 20.8% |
| For 4 inch meter | \$1,154.00 | \$1,420.00 | 23.1% |

QUANTITY RATES

| | | | |
|---------------------------|---------|---------|-------|
| All water, per 100 cu.ft. | \$ 0.72 | \$ 0.89 | 23.6% |
|---------------------------|---------|---------|-------|

Comparison of a monthly typical bill for residential metered customers with a 3/4-inch is shown below at current rates and recommended rates for test year 2003.

| <u>Usage 100 cu.ft.</u> | <u>Bills at Present Rates</u> | <u>Bills at Recommended Rates</u> | <u>Amount of Increase</u> | <u>Percent of Increase</u> |
|-----------------------------|---------------------------------------|---|-------------------------------|--------------------------------|
| 0 | \$69.20 | \$78.50 | \$ 9.30 | 13.4% |
| 5 | \$72.95 | \$82.95 | \$10.00 | 13.7% |
| 7 Avg | \$74.24 | \$84.73 | \$10.49 | 14.1% |
| 10 | \$76.40 | \$87.40 | \$11.00 | 14.4% |

APPENDIX E
Benbow Water Company

DISTRIBUTION:

F. L. Curry, Chief
A. B. Jarrett, Supervisor
Tatiana Cherkas, Project Manager

PREPARED BY:

Elena Perez
Date: May 5, 2003

MEMORANDUM OF PUBLIC MEETING

Subject: Informal Public Meeting Concerning General Rate Increase
Request by Benbow Water Company.

Held at: Masonic Hall, 783 Locust St., Garberville, CA, CA 95542

Date: Wednesday
April 30, 2003

Time: 6:00 p.m.

Present:

| <u>NAME</u> | <u>TITLE</u> | <u>REPRESENTING</u> |
|-------------------|--------------------|----------------------|
| Tatiana Cherkas | Project Manager | CPUC Staff |
| Elena Perez | Regulatory Analyst | CPUC Staff |
| Winston B. Benbow | General Manager | Benbow Water Company |

Notice of the meeting was mailed to the ratepayers prior to the meeting date. The meeting started at around 6:10 p.m. and approximately twenty customers attended the meeting. Benbow Water Company is a Class D company with approximately 95 connections.

Tatiana Cherkas started the meeting and explained the rate case process and the procedures the utility follows when requesting a rate increase. Winston Benbow, General Manager of the water company, gave a presentation on the need for the

rate increase. He spoke about increased energy costs, about the upgrades in Zone 3 and other improvements made to the system including the 100,000-gallon bolted steel tank that was ready to go on line at the end of May. Mr. Benbow also indicated that he wanted to give his employee a salary increase. He also said that he was interested in selling the company. He said that other members of the Benbow family were not involved in operating the system and that he himself was no longer living in the area. Several methods of taking over the utility were discussed such as turning it into a mutual water company. Mr. Benbow indicated that a mutual company is not eligible for grants. He also discussed annexing it to Garberville, but it was determined that Garberville was a sewer district. A few customers wanted a sales price to purchase the company, but Mr. Winslow said that if purchasing discussions resumed, he would have a sales price. The owner of a local RV park indicated that during the last general rate case, customers showed interest in purchasing the utility but when it came time to making a decision, they said the rate increase was not that bad and abandoned the idea.

The discussion returned to the rate increase and how high it was. Several customers were under the impression that they had the highest rates in the area. The owner of the RV park indicated that if customers with a 5/8-inch or 3/4-inch meters felt that they had high rates, they should consider what would happen if the RV park pulls out impacting the rest of the residential rates much more. She added that she needed to stay competitive to stay in business and that the proposed increased was too high.

One customer wanted to know why there were so many 3/4-inch residential meters. Mr. Benbow explained that it was because of low pressure. After the meeting Mr. Benbow requested that we look into the possibility of charging the same rate for the 5/8-inch and the 3/4-inch meters. The meeting was adjourned at about 7:15pm.